

In the Gulf of Honduras, offshore Belize, a deep exploratory test, drilled at no cost to Canadian Superior, has been abandoned.

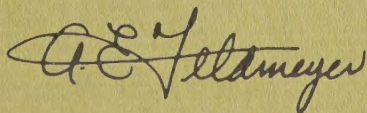
In the Gulf of Mexico, one exploration test was abandoned and one is drilling. Seven development wells were completed as gas wells; one was abandoned and three are drilling. It is anticipated that production will commence from South Marsh Island Blocks 243 (10%) and 249 (7%), offshore Louisiana, in the third quarter.

In the Gulf of Alaska, a projected 15,000-foot test well commenced drilling on May 13th on Block 329 in which Canadian Superior has a 5% interest. The well is currently drilling below 11,500 feet. On a different structure, where the Company has a 5% interest in Block 120, a well was started on July 17 by another operator. Canadian Superior is financially supporting this latter well by way of a bottom hole contribution.

In July, Canadian Superior, together with its parent and associated mining companies, entered into an agreement with the Government of Chile. The companies have the exclusive right to conduct an exploration program on certain mining claims in Northern Chile. Canadian Superior's interest is 22½%.

CORPORATE

With reference to the possible amalgamation of Canadian Superior Oil Ltd. and Alminex Limited, announced last fall, the Board of Directors of Canadian Superior has authorized the offer of 1/13th share of its common stock plus \$7.00 for each share of Alminex. The offer will be formally made in an offering circular and is subject to the approval of all necessary regulatory authorities. Falconbridge Nickel Mines Limited, which owns approximately 49% of the shares of Alminex, has agreed to tender its shares subject to such tender not constituting default under any debt restriction to which Falconbridge is subject.



August 5, 1977
Calgary, Alberta

A. E. FELDMEYER
President

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INTERIM REPORT

FOR SIX MONTHS ENDED JUNE 30, 1977

**Consolidated Statement of Income**

	Six Months Ended June 30		Three Months Ended June 30	
	1977	1976	1977	1976
INCOME				
Gross operating income, less royalties and mineral taxes	\$82,872,022	\$66,958,313	\$37,835,399	\$30,184,830
Interest, dividends and other income	4,222,545	2,869,103	1,822,443	939,640
	<u>87,094,567</u>	<u>69,827,416</u>	<u>39,657,842</u>	<u>31,124,470</u>
EXPENSES				
Operating, administrative and general	12,863,244	9,624,694	7,420,822	4,729,276
Loss (gain) on foreign currency translation	(1,541,170)	977,364	(12,217)	240,334
Rents of undeveloped properties	1,111,603	920,251	640,186	445,952
Exploration — geological and geophysical	7,657,192	4,261,682	4,135,895	2,447,781
Intangible drilling expenditures	14,702,712	16,402,558	6,299,153	7,854,627
Depreciation	4,644,286	3,517,434	2,338,386	1,763,067
Depletion	522,407	472,577	250,743	224,092
Leases abandoned	580,007	3,191,824	527,280	2,460,419
	<u>40,540,281</u>	<u>39,368,384</u>	<u>21,600,248</u>	<u>20,165,548</u>
NET INCOME BEFORE INCOME TAXES	<u>46,554,286</u>	<u>30,459,032</u>	<u>18,057,594</u>	<u>10,958,922</u>
Provision for income taxes				
Current	20,817,099	18,089,439	8,979,000	8,519,219
Deferred	(1,350,000)	(3,688,000)	(1,057,000)	(2,616,000)
	<u>19,467,099</u>	<u>14,401,439</u>	<u>7,922,000</u>	<u>5,903,219</u>
NET INCOME FOR THE PERIOD	<u>\$27,087,187</u>	<u>\$16,057,593</u>	<u>\$10,135,594</u>	<u>\$ 5,055,703</u>
Average shares outstanding	8,557,669	8,554,753	8,557,936	8,555,419
Net income per share	<u>\$ 3.17</u>	<u>\$ 1.88</u>	<u>\$ 1.19</u>	<u>\$ 0.59</u>
OPERATING RESULTS (gross units)				
Crude oil and natural gas liquids production				
— barrels daily	35,520	34,282	33,982	32,685
Natural gas sales — million cubic feet daily	232	245	198	210
Sulphur production — long tons daily	709	800	630	741
Sulphur sales — long tons daily	649	255	621	295

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Consolidated Statement of Changes in Financial Position

	Six Months Ended June 30		Three Months Ended June 30	
	1977	1976	1977	1976
SOURCE OF WORKING CAPITAL				
Net income	\$ 27,087,187	\$ 16,057,593	\$10,135,594	\$ 5,055,703
Add charges to income not requiring the use of working capital	6,155,667	3,493,835	3,818,376	1,831,578
	33,242,854	19,551,428	13,953,970	6,887,281
Add drilling and exploration expenditures	22,359,904	20,664,240	10,435,048	10,302,408
Working capital provided from operations	55,602,758	40,215,668	24,389,018	17,189,689
Capital stock issued for cash	20,700	51,750	6,210	20,700
Proceeds from sale of investments	1,083,035	840	—	840
Miscellaneous	95,838	37,350	16,239	19,005
	56,802,331	40,305,608	24,411,467	17,230,234
USE OF WORKING CAPITAL				
Capital expenditures				
Lease acquisition	13,334,241	4,071,283	7,322,903	3,467,383
Plant and equipment	8,227,615	5,739,802	4,342,740	2,324,911
Exploration — geological and geophysical	7,657,192	4,261,682	4,135,895	2,447,781
Intangible drilling costs	14,702,712	16,402,558	6,299,153	7,854,627
Total capital, drilling and exploration expenditures	43,921,760	30,475,325	22,100,691	16,094,702
Investment in other companies	1,094	64,843	—	—
Decrease in prepaid gas revenue	47,027	263,443	—	113,864
Miscellaneous	808,359	318,778	155,129	144,179
	44,778,240	31,122,389	22,255,820	16,352,745
Increase in Working Capital	\$ 12,024,091	\$ 9,183,219	\$ 2,155,647	\$ 877,489

	As at June 30	
	1977	1976
MAJOR BALANCE SHEET ITEMS		
Current assets	\$117,693,298	\$ 85,258,391
Current liabilities	24,740,328	19,175,044
Working capital	92,952,970	66,083,347
Properties, plant and equipment — net	138,537,102	117,291,138
Shareholders' equity	242,277,637	192,826,991

These statements include all normal adjustments and accruals, but are unaudited.

To The Shareholders:

FINANCIAL

Consolidated net income for the six months ending June 30, 1977 amounted to \$27.1 million (\$3.17 per share) compared to \$16.1 million (\$1.88 per share) for the same period in 1976. Cash flow amounted to \$55.6 million compared to \$40.2 million for the corresponding period last year; an increase of 38%. Gross revenue from all sources increased 25% to \$87.1 million, primarily attributable to higher oil and gas prices.

Drilling and exploration expenditures totalled \$22.4 million during the first six months this year compared to \$20.7 million a year ago.

Canadian Superior was a participant in the studies undertaken by Canadian Arctic Gas Pipeline Ltd. until mid-1975. In the light of recent developments, the Company's investment of \$1.8 million in this undertaking has been written off as at June 30, 1977.

In June of 1977, the Company increased its line of credit with certain United States and Canadian banks from \$100 million to \$200 million. No borrowings have been made to date under the loan agreements.

PRODUCTION

Crude oil production for the first six months of 1977 averaged 22,734 barrels per day, an increase of 8% compared to the same period a year ago. Condensate, propane and butane sales were down 4% to 12,786 barrels per day. Natural gas sales declined 6% to 232 million cubic feet daily. Sales of bulk and liquid sulphur averaged 649 long tons daily compared to 255 long tons daily during the corresponding period last year.

EXPLORATION AND DRILLING

During the first six months of 1977, the Company participated in the drilling of 105 wells, 48 of which were exploratory and 57 were development. The exploratory drilling resulted in one oilwell, 20 gas wells and 27 dry holes. Of the development wells, 15 were oilwells, 36 were gas wells and six were abandoned.

CANADA

During the six months ended June 30, 1977, your Company actively participated in government land sales and expended \$13.3 million in the acquisition of Crown lands. Approximately \$11.5 million of this amount was spent to acquire varying interests in 161,570 acres in the Deep Basin and Foothills areas of West Central Alberta and North Eastern British Columbia. Three deep exploratory wells are currently being drilled to evaluate some of these lands and four more are expected to commence drilling before the end of the year. In addition, two follow-up wells in the Findley area of the Alberta Foothills are currently drilling below 10,000 feet.

INTERNATIONAL AREAS

Offshore Abu Dhabi, in the Arabian Gulf, the seventh successful oilwell has been completed in the Arzanah development program. The eighth well, which is an important northerly stepout, is currently drilling. Your Company's interest is 10%.

Offshore Tunisia, in the Gulf of Hammamet, where Canadian Superior's interest is 16%, a follow-up well to the discovery made last year, commenced drilling July 25, 1977.

Offshore India, in the Cauvery basin, where your Company has a 21.67% interest, the first exploratory test commenced drilling on May 26, 1977. This well is being drilled on a structure determined from detailed seismic work and is currently drilling below 10,000 feet.

In the Gulf of Thailand, the first follow-up well to the gas discovery made last year was successful and tested gas from eleven Tertiary sand zones. Canadian Superior's interest is 16%. The government of Thailand is currently examining the feasibility of constructing a submarine pipeline to connect offshore gas discoveries in the Gulf of Thailand to markets in the Bangkok area.

In Bolivia, in the Tarija area, a second wildcat is currently drilling on a production-sharing permit in which Canadian Superior has a 25% interest. Some gas shows have been encountered and testing will be conducted after reaching total depth.

On July 7th, a contract was signed with the Government of the Dominican Republic to conduct an exploration program in the onshore Enriquillo Basin. The contract covers approximately 735,000 acres and will become effective upon approval by the National Congress of the Dominican Republic.